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The impact of differential payroll tax subsidies on minimum wage employment ☆

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Abstract

In this article, we study the impact of changes of total labor costs on employment of low-wage workers in France in a period, 1990 to 1998, that saw sudden and large changes in these costs. We use longitudinal data from the French Labor Force survey (« enquête emploi ») in order to understand the consequences of real decreases and real increases of the labor cost. We examine the transition probabilities from employment to non-employment and from non-employment to employment. In particular, we compare the transition probabilities of the workers that were directly affected by the changes (''between'' workers) with the transition probabilities of workers closest in the wage distribution to those directly affected (''marginal'' workers). In all years with an increasing minimum cost, the ''between'' group (or the treated using the vocabulary of controlled experiments) comprises all workers whose costs in year t lie between the old (year t) and the new (year $t+1$) minimum. In all years with a decreasing minimum, the ''between'' group comprises all workers whose costs in year $t+1$ lie between the present minimum cost (year $t+1$) and the old (year t) minimum cost. The results can be summarized as follows. Comparing years of increasing minimum cost and decreasing minimum cost, difference-in-difference estimates imply that an increase of 1% of the cost implies roughly an increase of 1.5% in the probability of transiting from employment to non-employment for the treated workers, the resulting elasticity being -1.5. Second, results for the transitions from non-employment to employment are less clear-cut. Tax subsidies have a small and insignificant impact on

☆The data were taken from the ''Enquête Emploi'' research files constructed by the Institut National de la Statistique et des Etudes Economiques (INSEE, the French national statistical agency). For further information contact: INSEE, Département de la diffusion, 18 bd Adolphe Pinard, 75675 Paris Cedex 14, France.

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entry from non-employment as well as on transitions within the wage distribution. Finally, we show that the ''marginal'' group constitutes a good control group. In addition, there is no obvious evidence of substitution between the ''between'' and ''marginal'' groups of workers, but there is some evidence of substitution between workers within the tax subsidy zone, with wages above those of the ''marginal'', and workers outside the subsidy zone.

Keywords: Minimum wage; Total labor costs; Tax subsidies

JEL classification: J31; J23

1. Introduction

The importance of minimum wages on labor market outcomes is a matter of considerable debate. Some argue that minimum wage changes have no visible impact on employment (see the discussions surrounding the Card and Krueger's, 1994 study; see also Card and Krueger, 1998 and Card and Krueger, 1995 for a recent critical analysis of the literature; see also Dickens et al., 1998 for an analysis of the UK). While some others find that the falling real minimum wage over the 1980s had impacts both on the employment of young as well as adult workers, and on the increase in wage inequality in the US (see Brown et al., 1982 for the classic survey of the employment effects of minimum wages; Brown, 1999 for a new comprehensive survey; Dolado et al., 1996 for a European perspective; Neumark and Wascher, 1992 for the US, Abowd et al., 2000a for young workers or Abowd et al., 1999 for adult workers both in France and in the US; and DiNardo et al., 1996 and Lee, 1999 for inequality).

All these studies, indeed almost all existing ones, use wages as a measure of total labor costs. While this is a good measure for the low-wage labor market in the US it is far from being adequate in Continental Europe. Indeed, in France, for a worker paid at the minimum wage, employee-paid contributions increased from 12.22% of the wage in 1980 to 20.02% at the beginning of 1993 whereas employer-paid contributions remained roughly stable (from 39.00% to 39.19%). But, starting in 1993, the employer-paid contributions started to decrease for minimum-wage workers (from 36.49% of the wage in 1993 to 21.77% in 1996), even though the minimum wage increased steadily over this period. Furthermore, the subsidies increased dramatically and, maybe, unexpectedly, between 1995 and 1996.

In this article, we study the impact of changes of total labor costs on employment of low-wage workers in France in a period, 1990 to 1998, that saw steady increases followed by sudden and large decreases in minimum costs. The tax subsidies were expected to counteract the negative impact of high minimum